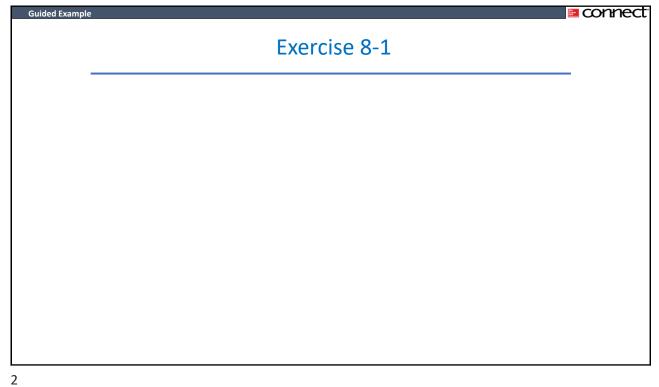
	Chapter 8 – Master Budgeting	
		Click on links
Exercise 8-1	Schedule of Expected Cash Collections	Exercise 8-1
Exercise 8-2	Production Budget	Exercise 8-2
Exercise 8-3	Direct Materials Budget	Exercise 8-3
Exercise 8-5	Manufacturing Overhead Budget	Exercise 8-5
Exercise 8-7	Cash Budget	Exercise 8-7
Exercise 8-8	Budgeted Income Statement	Exercise 8-8





Northeast Products is a wholesale distributor of swim accessories. Peak sales occur in May of each year as shown in the company's sales budget for the second quarter, given below:

	April	May	June	Total
Budgeted sales (all on account)	\$780,000	\$1,010,000	\$850,000	\$2,640,000

From past experience, the company has learned that 25% of a month's sales are collected in the month of sale, another 60% are collected in the month following sale, and the remaining 15% are collected in the second month following sale. Bad debts are negligible and can be ignored. February sales totaled \$660,000, and March sales totaled \$725,000.

Required:

- 1. Prepare a schedule of expected cash collections from sales, by month and in total, for the second quarter.
- 2. Assume that the company will prepare a budgeted balance sheet as of June 30. Compute the accounts receivable as of that date.

[LO2]

3



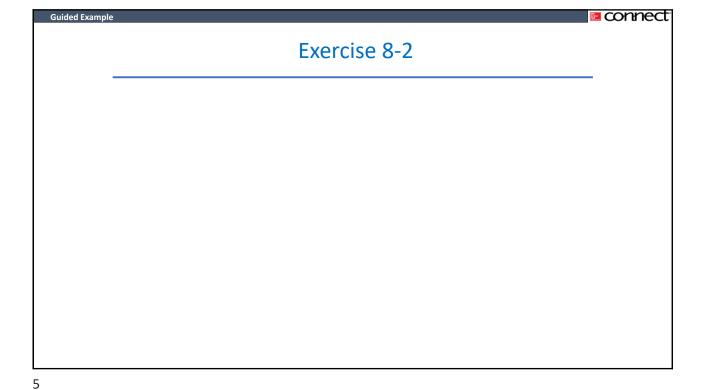


Requirement 1: Prepare a schedule of expected cash collections from sales, by month and in total, for the second quarter.

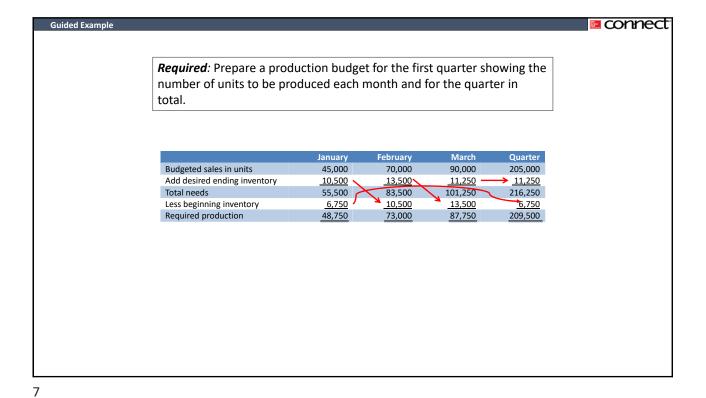
	April	May	June	Total
February sales:				
\$660,000 × 15%	\$ 99,000			\$ 99,000
March sales:				
\$725,000 × 60%, 15%	435,000	\$ 108,750		543,750
April sales:				
\$780,000 × 25%, 60%, 15%	195,000	468,000	\$ 117,000	780,000
May sales:				
\$1,010,000 × 25%, 60%		252,500	606,000	858,500
June sales:				
\$850,000 × 25%			212,500	212,500
Total cash collections	\$ 729,000	\$ 829,250	\$ 935,500	\$ 2,493,750

Requirement 2: Assume that the company will prepare a budgeted balance sheet as of June 30. Compute the accounts receivable as of that date.

From May sales: \$1,010,000 × 15%	\$ 151,500
From June sales: \$850,000 × (60% + 15%)	637,500
Total accounts receivable	\$ 789,000



connect **Guided Example** Diamond Telecom has budgeted the sales of its innovative smartphone over the next four months as follows: Sales in Units 45,000 January February 70,000 90,000 March April 75,000 The company is now in the process of preparing a production budget for the first quarter. Past experience has shown that end-of-month finished goods inventories must equal 15% of the next month's sales. The inventory at the end of December was 6,750 units. Required: Prepare a production budget for the first quarter showing the number of units to be produced each month and for the quarter in total. [LO3]



Exercise 8-3

Exercise 8-3





Mini Products, Inc., has developed a small digital clock. Each clock requires five small batteries that cost \$6 each and are purchased from an overseas supplier. Mini Products has prepared a production budget for the clock by quarters for Year 3 and for the first quarter of Year 4, as shown below:

	Year 3				Year 4
	First	Second	Third	Fourth	First
Required production of clocks	40,000	45,000	55,000	60,000	44,000

The battery used in production of the clock is sometimes hard to get, so it is necessary to carry large inventories as a precaution against stockouts. For this reason, the inventory of batteries at the end of a quarter must equal 25% of the following quarter's production needs. A total of 50,000 batteries will be on hand to start the first quarter of Year 3.

Required:

Prepare a direct materials budget for batteries, by quarter and in total, for Year 3. At the bottom of your budget, show the dollar amount of purchases for each quarter and for the year in total.

[LO4]

9

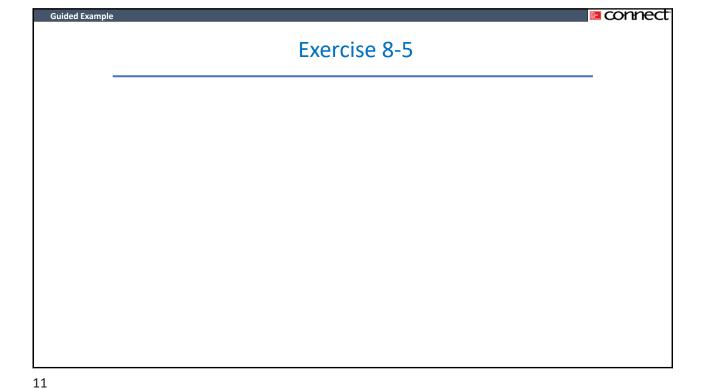


Guided Example



Required: Prepare a direct materials budget for batteries, by quarter and in total, for Year 3. At the bottom of your budget, show the dollar amount of purchases for each quarter and for the year in total.

			Year 3		
	First	Second	Third	Fourth	Year
Required production - clocks	40,000	45,000	55,000	60,000	200,000
Batteries needed per clock	<u>× 5</u>	<u>× 5</u>	<u>× 5</u>	<u>× 5</u>	<u>× 5</u>
Production needs—batteries	200,000	225,000	275,000	300,000	1,000,000
Add desired ending inventory—batteries	56,250	<u>68,750</u>	<u>75,000</u>	<u>55,000</u>	55,000
Total needs—batteries	256,250	293,750	350,000	355,000	1,055,000
Less beginning inventory—batteries	50,000	<u>3√56,250</u>	68,750	75,000	<u>50,000</u>
Required purchases—batteries	206,250	237,500	281,250	280,000	1,005,000
Cost per battery	× \$6	× \$6	× \$6	× \$6	× \$6
Cost of purchases	\$1,237,500	\$1,425,000	\$1,687,500	\$1,680,000	\$6,030,000



Guided Example connect The direct labor budget of Island Corporation for the upcoming fiscal year includes the following budgeted direct labor-hours. 2nd Quarter 3rd Quarter 4th Quarter 1st Quarter **Budgeted direct labor-hours** 10,000 11,000 11,500 10,750 The company's variable manufacturing overhead rate is \$2.30 per direct labor-hour and the company's fixed manufacturing overhead is \$60,000 per quarter. The only noncash item included in fixed manufacturing overhead is depreciation, which is \$20,000 per quarter. 1. Construct the company's manufacturing overhead budget for the upcoming fiscal year. 2. Compute the company's manufacturing overhead rate (including both variable and fixed manufacturing overhead) for the upcoming fiscal year. Round off to the nearest whole cent. [LO6]

